

To the Members of the California State Senate:

I am returning Senate Bill X8 32 without my signature.

This bill is similar to legislation I vetoed last fall. In my veto message, I expressed disappointment that the multi-year process of drafting a consensus bill on federal tax conformity was derailed by the last minute insertion of a provision that was objectionable to many of the parties involved in the process. A version of that provision remains in this bill and as such I cannot support it. I have made my objections clear, both publicly and privately, to legislative leaders on numerous occasions. This veto should not come as a surprise to them, as I have told them for weeks that I cannot support the bill as written and have encouraged them, both publicly and privately, to act on revised legislation.

Before discussing the provision of the bill I continue to find objectionable, I would like to express my strong support for two provisions in the measure. First, is the provision to extend the law providing mortgage debt forgiveness to those Californians who have gone through a “short sale” process. I signed a law in 2008 that forgave this debt for two years and I am supportive of extending this law. In fact, Assemblyman Niello, a Republican, and Senators Calderon and Correa, both Democrats, have introduced stand-alone measures to extend the law. Given the bipartisan support for extending this provision, it would have been easy for the Legislature to pass a bill before adjourning for their spring vacations. Unfortunately, the Legislature chose not to act.

I also support ensuring that federal economic stimulus grants received for renewable energy projects are not treated as income for tax purposes. California is one of the only states in the nation that considers the receipt of federal stimulus grants under the American Recovery and Reinvestment Act as taxable income for renewable projects. Renewable companies are currently establishing the financing to build their California projects. If California adds millions of dollars of cost by taxing federal stimulus grants, these projects will die. Again, legislation with bipartisan support is already introduced on this topic and could have been passed before the Legislature left Sacramento.

Regarding the objectionable provision of this bill, I do not oppose appropriate penalties on taxpayers who fail to pay what they owe or try to manipulate tax law. As part of the 2008 budget solution, California added the highest penalty in the nation on companies that understate their taxes. The purpose of this penalty was to encourage companies to err on the side of overpayment, thus accelerating revenues for the state. The proposed federal penalty in this bill

impacts the same taxpayers. The interaction between the two penalties is unfair. The state has forced many of these taxpayers to overestimate their tax payments in order to address our budget crisis and, under this bill, we would then penalize them if the tax refund they claimed is too high. I cannot support this policy. If the members of the Legislature want to have a separate discussion about ways to make the federal penalty operational in California in conjunction with the state penalty, I am open to that discussion.

For these reasons, I am returning this bill without my signature. I encourage the Legislature to immediately pass revised legislation on the matters addressed above.

Sincerely,

Arnold Schwarzenegger